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To: Lourdes Putz, Chairperson,
Williamsburg Charter High School Board of Trustees

From: Recy Benjamin Dunn, Executive Director,
New York City Department of Education, Charter Schools Office

Subject: **Notice of Probationary Status**

cc: Marsha Spampinato, Principal, Williamsburg Charter High School
Sonia C. Park, NYC DOE CSO

In 2009, pursuant to the New York State Charter Schools Act, the New York City Department of Education ("NYCDOE") renewed the approval of the Williamsburg Charter High School ("WCHS") to continue to operate a high school for grades of 9-12, providing a standards-based, academically challenging educational program to improve learning and achievement for its students.

Findings from the annual site visit conducted by the Charter Schools Office ("CSO") on May 26, 2011 and a variety of current circumstances related to the operational effectiveness of the school have led the NYCDOE to conclude that WCHS is in material and substantial violation of its charter, and in serious violation of applicable laws and regulations:

Probation:

As a result of the review, the NYCDOE, as the charter authorizer for the Williamsburg Charter High School, is putting the school on probationary status for one year pursuant to N.Y. Education Law § 2855(3). The probationary status is effective as of the date of this letter, and will expire as of August 31, 2012 unless (1) extended or shortened in writing by the NYCDOE based on WCHS's compliance with its charter, applicable laws and regulations, and the Corrective Action Plan outlined below or (2) NYCDOE or New York State Education Department ("NYSED") takes further steps to terminate WCHS's charter pursuant to N.Y. Education Law § 2855(2). The conditions that will need to be redressed are identified among the Areas of Growth included the Annual Site visit report and further described below.

Material and Substantial Charter Violations

The annual site visit and the documents submitted revealed that WCHS is not in full compliance with its Second Renewal Charter Agreement and School Monitoring Plan (2009). Of primary concern, WCHS must have CSO approval prior to entering into a contractual relationship with a management organization. WCHS entered into such a relationship with Believe High School Network, but did not seek CSO approval until *after* such relationship was established; only then was

a request for charter modification submitted by WCHS. After the modification was sent to NYSED by the CSO, NYSED articulated numerous issues about the relationship in addition to the concerns held by the CSO; DOE ultimately withdrew the modification request. WCHS has continued the contractual relationship without CSO approval in violation of Section 2.13 of WCHS's Charter and Section B of the Monitoring Plan.

WCHS has not abided by the conditions of the Charter Agreement and the School Monitoring Plan by failing to inform the CSO of Board changes, within 5 business days any additions or removal of board trustees and supplying required financial disclosures. The name of any proposed member of the Board, with background information, should be submitted to the CSO office for approval as specified in Section 2.12(a) of WCHS's Charter. The WCHS Board has not provided this required information for board changes that have taken place from 2009-10 to 2010-11. In addition, each Trustee that has served on the board must annually file a Disclosure of Financial Interest report with the NYSED as specified in Section 2.12(d) of the Charter. The WCHS Board submitted a Disclosure of Financial Interest report for only one Board member to SED for the 2009-10 academic year.

In accordance with Section 5.8 Collateral for Debt, WCHS may not pledge or assign per pupil funds in connection with the purchase, construction, acquisition, reconstruction, rehabilitation or improvement of a school facility. Based on the NYCDOE's current understanding of the agreements, WCHS has violated this clause in its term and line of credit agreements with the Nonprofit Finance Fund.

WCHS is also being audited by the NY State Office of Audit Services and under investigation by the NY State Office of the Attorney General concerning its relationship with the Believe Network, corporate governance, and financial practices. The school, in accordance to its Monitoring Plan, should have provided written notice to the CSO within five business days of receipt of a summons and/or complaint in which either the school or any member of the board of trustees is named. The CSO received notice that WCHS was issued a subpoena by the Attorney General's Office but not that a Board member, Eddie Calderon-Melendez, was also served.

Compliance with Other Laws and Regulations

The annual site visit revealed that the Board of Trustees is not in compliance with the applicable provisions of the Charter Law concerning conflicts of interest. In the submitted 2010-11 Board roster, of the six Board members, at least three have interests (i.e. are employed) with either the Believe High School Network or with the other schools the Network manages. Any decisions made by the Board in regards to WCHS's relationship with the Network would not be valid as those three members would have to recuse themselves; with only three voting Board members remaining, a majority vote decision would not be possible.

Based on the materials submitted for the annual site visit, the Board of Trustees has not met bi-monthly, as specified in the school's bylaws. The Board met, with quorum, only 4 times from June 23, 2010 to March 16, 2011. The Annual Meeting, held on March 1, 2011, did not make quorum with only three board members present.

The lack of quorum and apparent conflicts of interests of the current board may render invalid any decision made over the course of the 2010-11 year or other years where similar deficiencies exist.

Additionally, the NYCDOE's review has led it to conclude that WCHS is not in full

compliance with the amended Charter School Act and Education Law sections 2590-h(15)(a) and 414(1)(c).

Those provisions require all NYC charters to establish Parent Associations and that parent association meetings are, among other things, open to the general public. To the DOE's knowledge, WCHS has failed to meet those requirements. WCHS should continue to strengthen parent participation and engagement via the establishment of a Parent Association which is formally organized and meets regularly.

As a result of the violations of law and charter described above and pursuant to Education Law Section 2855 (3), the NYCDOE places the Williamsburg Charter High School on probation beginning on the date above and continuing through the end of August 2012.

In addition to legal violations, the CSO has serious concerns regarding the financial stability of WCHS. It appears that the school is struggling to be viable on its per pupil allocation and has amassed substantial debt. For instance, according to WCHS's annual report for 2010-2011, it has current assets of approximately \$509, 000 and current liabilities of \$4.89 million. It also incurred over \$15.5 million in expenses, while taking in only \$13.7 million in revenue, \$13.5 million of which comes from the public sources. Over the course of the 2010-11 school year, WCHS has not consistently paid rent on its facility, invoices submitted by its vendors, and loans from its lenders such as the Nonprofit Finance Fund, and appears to have addressed budgetary shortfalls by reducing teaching staff. During the same year, it paid a management fee of over \$2.34 million.

Among the terms and conditions of WCHS's probation are the requirements that:

- WCHS take immediate action to remedy Items 1 and 6 below, and
- No later than September 30, 2011, the WCHS's Board of Trustees create a comprehensive Corrective Action Plan explaining how WCHS plans to remedy all other violations of law and charter including the following:

Remedial Action Plan Requirements

1. Termination of the unapproved contractual relationship with the Believe Network. CSO will allow WCHS six weeks to transition out of the relationship; by October 31, 2011, all services provided by the Believe Network will cease. After October 31, 2011, WCHS may not pay any management or consultancy fees relating to the administration and management of the school without receiving the advance written approval of CSO and making appropriate amendments to its charter if applicable.
2. Board conducts an analysis of its capacity for providing unbiased, arms-length oversight and develops a plan for improving that capacity, which should include a strategy for eliminating overlapping board appointments, eliminating apparent conflicts of interest, board expansion (with prior approval by CSO as mandated in the WCHS's Section 2.12(a) of the Charter) and/or programmatic board training.
3. Board revises its bylaws and adopts a new conflict of interest policy to reflect the GML.
4. Board revises its meeting schedule to include 12 monthly meetings a year.

5. School provides an overall fiscal management plan and employs a CSO approved independent fiscal agent that reports to the CSO on a monthly basis. The management plan should include provisions for regular oversight and reporting to the board of trustees and a comprehensive strategy to ensure the fiscal soundness and stability of the School. This plan must include:
 - i) A detailed month-to-month cash flow projection for the 2011-12 school year, which indicates positive cash flow and incorporates specific details about all cash transactions, including the use and payback of any loans as well as anticipated tuition reconciliation activity with the NYC DOE for repayment of funds billed in excess of actual enrollment. This cash flow projection should provide details about all long-term, short-term or other financing (including the names of vendors, amounts owed and terms of repayment) and extending accruals (including by changing payment terms with staff and/or consultants). Supporting documentation—including, bank reconciliations, monthly financial statements, invoices, notices of overdue balances, documentation of financing charges, etc.—must be provided to substantiate items contained within the projection. In addition a copy of all contracts—including leases and consulting agreements held by the School must be provided, including the names of contractors, individual consultants, services provided, copies of signed contracts, evaluations of services rendered, copies of vendor invoices, and payments made by the School.
 - ii) A detailed 2011-12 annual budget inclusive of an operating surplus and measures to eliminate the School's working capital deficit. The budget must include detailed personnel information including headcounts, staff titles, and salaries for all staff members. The School's board must fully consider cost-cutting measures, including the termination or renegotiation of contracts.
 - iii) A balance sheet and income statement as of the close of each month between July 1, 2011 and December 31, 2011, submitted no later than 30 days after the close of each month. *The first set of financial statements through July 31, 2011 must be submitted no later than 12:00 p.m. on Friday, September 30, 2011.*
 - iv) A discussion and analysis of the school's facilities plans and its revised leasing arrangement with its landlord.
6. Board, directly or by subcommittee, conducts an in-depth review of its contracts and agreements with the School's landlord, lenders and vendors to ensure compliance with its Charter Agreement and the amended Charter Schools Act.
7. Board, directly or by subcommittee, ensures that the school reviews its operational and financial reporting structure to ensure clear accountability and effective oversight occurs.
8. School will continue to cooperate with the NY State Office of Audit Services and the NY State Office of the Attorney General and to comply with all recommendations that result from the investigations of as well with any other agency audits currently being conducted.
9. The Board will submit its Board of Trustees meeting agendas and all information packets for each meeting to the CSO each month.

The measures and ongoing monitoring to be detailed in the Remedial Action Plan above must be developed, approved, and implemented by WCHS's Board of Trustees, and approved by the NYCDOE. The CSO will attend between 9 and 12 Board of Trustees meetings during the term of the probation and conduct site visits and monitoring activities as it deems appropriate to ensure progress on the Corrective Action Plan. If at the end of the probation period, WCHS has adequately and effectively implemented its Corrective Action Plan, and has demonstrated full compliance with applicable law and charter terms, it will be removed from probation. If, however, the school's Corrective Action Plan is inadequate or its implementation ineffective, and/or the school remains in violation of the Charter Law and its Charter, the probation period may be extended or the school's charter may be revoked at any time during the probationary period.